

**MINUTES OF THE JOINT EXECUTIVE APPROPRIATIONS
COMMITTEE MEETING
November 17, 2009 at 1:00 P. M.
Room 445, Capitol Building, State Capitol Complex**

Members Present: Rep. Ron Bigelow, Co-Chair
 Sen. Lyle W. Hillyard, Co-Chair
 Sen. Peter C. Knudson, Vice Chair
 Rep. Bradley G. Last, Vice Chair
 Rep. David Clark, Speaker
 Rep. Kevin S. Garn
 Rep. James R. Gowans
 Sen. Scott K. Jenkins
 Sen. Patricia W. Jones
 Sen. Sheldon L. Killpack
 Rep. Rebecca D. Lockhart
 Sen. Karen Mayne
 Rep. Carol Spackman Moss
 Sen. Wayne L. Niederhauser
 Sen. Luz Robles
 Sen. Ross I. Romero
 Rep. Jennifer M. Seelig
 Sen. Michael G. Waddoups, President

Members Excused: Rep. David Litvack
 Rep. Brad L. Dee

Staff Present: Jonathan Ball, Legislative Fiscal Analyst
 Steven Allred, Deputy Director
 Greta Rodebush, Secretary

Speakers Present: Tenielle Young, Governor's Office of Planning and Budget
 Danny Schoenfeld, Legislative Fiscal Analyst
 John Reidhead, Division of Finance
 Deborah L. Donaldson, AON Consultants
 Brent Crane, AON Consultants
 John Nixon, Governor's Office of Planning and Budget
 Ben Leishman, Legislative Fiscal Analyst
 Debra Roberts, Utah State Board of Education
 Larry K. Shumway, Utah State Office of Education
 Todd Hauber, Utah State Office of Education
 Jonathan Ball, Legislative Fiscal Analyst
 Steven Allred, Legislative Fiscal Analyst

Note: A copy of related materials, and an audio recording of the meeting can be found at www.le.utah.gov.

A list of visitors and a copy of handouts are filed with the committee minutes.

1. Call to Order/Approval of Minutes

Committee Co-Chair Hillyard called the meeting to order at 1:27 p.m.

2. Federal Funds/ARRA/Non-Federal Grants Reports

Tenielle Young, Governor's Office of Planning and Budget, presented the Federal Funds/ARRA/Non-Federal Grants Reports through October 31, 2009. There were no new federal grants and seven reapplications of existing grants requiring legislative action. The Governor's Office approved one new federal grant and one reapplication of an existing grant.

Ms. Young presented the ARRA Federal Funds Report. There were two new grants and no reapplications of existing grants requiring legislative action. The Governor's Office approved one grant and no reapplications of existing grants.

Ms. Young presented the Non-Federal Grants Report. There was one new grant and no reapplications of existing grants requiring legislative action. The Governor's Office approved one new grant and one reapplication of an existing grant.

Ms. Young responded to Co-Chair Hillyard's previous inquiry about the funding status for the KSL Radio Quarters for Christmas grant. Ms. Young explained that KSL Radio Quarters for Christmas received a non-federal grant award in FY 2009. KSL Radio has submitted a reapplication for FY 2010 which has been approved by the Governor's Office as indicated in this month's report.

Co-Chair Hillyard expressed concern that entities receiving one-time ARRA monies may approach the state for continued funding once the federal funding goes away.

Co-Chair Hillyard asked if this month's two ARRA grants requiring legislative action are truly one-time monies. Ms. Young noted that on the grant application, there is a question that asks agencies if state funding will be needed when federal funds expire. She stated that neither agency indicated that additional state funding will be needed.

Co-Chair Hillyard stated that agencies should not expect to ask for more money because there is not going to be a lot to spend.

Pres. Waddoups asked for a clarification on funding for two of the federal reapplications of existing grants requiring legislative action.

He also inquired about three federal grants currently being tracked by the Governor's Office and the two ARRA grants requiring legislative action for the Department of Health and the Department of Workforce Services.

Co-Chair Hillyard asked if President Waddoups wanted the agencies to respond to him directly. Pres. Waddoups confirmed that this is how the agencies have responded to him in the past. LFA will also provide follow-up information at next month's EAC meeting.

Co-Chair Hillyard recognized Co-Chair Bigelow for a motion.

MOTION: Co-Chair Bigelow moved to approve the seven reapplications of existing federal grants requiring legislative action, as shown on page 1, with detail on pages 3 and 4; two new ARRA federal assistance applications requiring legislative action, as shown on page 35; one new non-federal grant application requiring legislative action, as shown on page 47; of the packet dated today, November 17, 2009. The motion passed unanimously.

Co-Chair Hillyard recognized Co-Chair Bigelow for a motion on the minutes.

MOTION: Co-Chair Bigelow moved to approve the minutes of the Joint Executive Appropriations Committee meeting of October 20, 2009. The motion passed unanimously.

Co-Chair Hillyard announced that Rep. Litvack asked to be excused from today's meeting.

3. Other Post Employment Benefits Liability Report

John Reidhead, Director, Division of Finance, introduced Deborah Donaldson and Brent Crane, AON Consulting.

Ms. Donaldson presented the GASB 45 valuation results as of December 31, 2008 for Other Post Employment Benefits (OPEB) which includes the State of Utah Employees' Retiree Healthcare and Life Insurance Plans. Under the healthcare plan, AON valued the medical and prescription drug plans, but not dental and vision which retirees pay at full cost.

The GASB 45 Valuation Results as of 12/31/2008 show a FY 2010 Annual OPEB Cost (AOC) of \$43,819,000, down from FY 2009 AOC of \$53,491,000, determined as of 12/31/2006. The report determined that the State of Utah's FY 2010 Annual Required Contribution (ARC) could be reduced by approximately \$9 million. With this reduction, the state will continue to meet its OPEB obligations. Ms. Donaldson noted that Utah has been funding their ARC since the inception of GASB 45, which renders Utah's Net OPEB Obligation (NOO) as of June 30, 2010 to be \$0.

Co-Chair Hillyard clarified that Other Post Employment Benefits (OPEB) refers to healthcare and life insurance benefits for retirees, and that the state has been funding the Annual Required Contribution (ARC) for OPEB liabilities at about \$53 million. According to the report, that amount can now be dropped down to \$43 million.

Pres. Waddoups expressed an interest in learning about other states' plan options. Ms. Donaldson said that most states for which AON does valuations have an open plan. Utah has a closed plan with procedures in place that have significantly reduced the state's liability. In addition, many states fund their

liabilities for the lifetime of the retiree while Utah's funding is based on Program I sick leave balances. Ms. Donaldson reiterated that Utah's OPEB liabilities are significantly lower than some of the other states' liabilities.

Pres. Waddoups stated that we have made commitments to our employees and to our retirees and we want to do what is right. He asked if there are other things we can look at to meet our obligations.

Brent Crane, AON Consulting, stated that a number of states and public entities are managing costs and maintaining benefits through plan design options with emphasis on mail order drugs, generic drugs, and national networks, especially for retirees with Medicare.

4. In-Depth Budget Review

John Nixon, Executive Director, Governor's Office of Planning and Budget, commented that Utah's practice of funding its OPEB actuarial liability is one of the reasons why Utah's is recognized as the best management state in the country.

Mr. Nixon presented an overview of the in-depth budget review behind Tab 4, "Budget Implementation Report, GOPB Report to the Legislature, November 18, 2009." The report examines how state entities implemented the budget reductions in FY 2009 and FY 2010 and the potential effect of losing one-time "backfill" monies in FY 2011.

A binder with the report and a 150-page appendix was distributed to the Co-Chairs, Pres. Waddoups, and Speaker Clark. This information can be found on GOPB's website as well.

Mr. Nixon stated that the report does not include how the Governor plans to mitigate programmatic cuts in critical areas for FY 2011. The Governor's plan will be forthcoming in the Governor's Budget Recommendation that will be released in December of this year.

Mr. Nixon clarified that the report is a summary of agency operational budgets and does not include capital budgets.

The report contains an executive summary, statewide overview, descriptions of critical areas and reasons for FY 2010 backfill, best practices exhibited by agencies, and summaries for each agency. The appendix includes, listed by subcommittee, by agency, briefing sheets and detailed spreadsheets of budget reductions, one-time backfills, FTE reductions, and FY 2011 impacts.

Mr. Nixon commented that the agencies have had a tall order to fill in meeting budget cuts in the 2009 and 2010 budget years. The agencies have taken great care in working with community partners and those affected by the cuts.

Mr. Nixon reviewed the statewide overview and explained the spreadsheet (Figure 4) on page 4, "FY 2010 Operating Budget Reductions and One-time Addbacks." Operational budgets were reduced by about \$825 million. Of that amount, \$465 million of one-time money was used as backfill.

Agencies, excluding higher and public education, received GF/EF budget reductions of approximately \$190.5 million. These cuts were backfilled by \$67.5 million, or 35 percent of the cut in FY 2010. Of the backfill received, \$40.9 million or 61 percent has been requested for the FY 2011 budget year.

Mr. Nixon noted that the Department of Health, Department of Human Services, Juvenile Justice Services, and Administrative Services (Jail Reimbursement formally with Corrections) received 81 percent of the backfill in FY 2010.

Higher and Public Education received budget reductions in FY 2009 and FY 2010 totaling approximately \$634 million. They received GF/EF and Federal Funds one-time backfill of \$361 million or 57 percent. Of the backfill funds received, Higher and Public Education has requested nearly 100 percent of GF/ED or \$360 million for FY 2011. Higher and Public Education did not make any request for enrollment and caseload growth associated with the increasing demand for higher and public education.

Mr. Nixon discussed the impact of the budget cuts on FTEs. State agencies eliminated about 900 FTE positions in FY 2009 and FY 2010. Without additional backfill money in FY 2011, agencies estimate FTE reductions could total approximately 149 additional FTEs. In Higher and Public Education, not including the Minimum School Program, about 1,100 FTEs have been lost. Another 800 FTEs will be reduced if the Legislature does not grant backfill money in the FY 2011.

Sen. Killpack asked about the number of FTE reductions in Public Education listed on the spreadsheet, (Figure 4) on page 4, of the report. Mr. Nixon explained that the 64 FTE reductions were within the State Office of Education and does not include FTE reductions in the Minimum School Program. He stated that the Governor's Office is working with the State Office of Education to get as much data as possible from the local school districts. He added that the chart (Figure 5) on page 5, "Public Education Personnel Reduction Distribution," shows how Public Education personnel reductions were distributed among classified employees, teacher-related positions, and administrative positions.

Sen. Jones referenced the briefing sheet for the Department of Human Services on page 15 which reads, "services will be reduced or eliminated in each area, the state may see clients currently receiving basic levels of care, coming into institutionalized care at a higher cost to the state." Sen. Jones stated that it would be helpful to know what the ultimate cost of these cuts will mean to the state.

Mr. Nixon stated that he could put this information together for her. He noted that the appendix includes an itemization of cuts for each line item. He offered to provide Sen. Jones with a copy of the appendix.

Sen. Robles wanted to know which agencies did not make any requests for backfill money in FY 2011. Mr. Nixon referred Sen. Robles to the spreadsheet (Figure 4) on page 4, that lists FY 2011 backfill requests by agency. He noted any new request for backfill money needs to come into the Governor's Office as a new request.

Mr. Nixon stated that agencies are requesting backfill in critical areas such as class size reduction in public education, stabilizing FTE reduction and access to course offerings in higher education, Medicaid caseload increases, reductions to Medicaid provider reimbursement rates, and human service programs provided by local governments.

He highlighted a number of "best practices" used by agencies to find efficient and optimal ways of delivering services. They include the use of the balanced scorecard, centralization, utilizing technology solutions, and early retirement incentives.

Mr. Nixon remarked that the agencies have taken these cuts very seriously. He reemphasized that Utah's prudent fiscal management has help the state weather the current economic storm better than any other state.

Finally, Mr. Nixon mentioned that the Governor's Budget Recommendation will be released in December.

5. Public Education Plans for Implementing FY 2011 Base Budget Allocations: Service Impacts, Employee Impacts, and Strategies

Ben Leishman, LFA, gave a brief overview of the documents provided behind Tab 5. "Agency Plans for FY 2011 Base Budget: Public Education" highlights changes made to the budgets of the Minimum School Program, School Building Program, and Education Agencies during the 2009 General Session.

Mr. Leishman pointed out that only the Minimum School Program received ongoing cuts in FY 2010 that were partially backfilled with one-time funds; the full impact of these cuts will be realized during FY 2011.

Other documents included the Utah Board of Education's "FY2010 District and Charter School Budget Cut Impacts & FY2011 MSP Budget Challenges" and the Utah State Office of Education's "2009/10 Budget Cut Implementation Report Summary."

Debra Roberts, Chair, Utah State Board of Education, remarked that even with a \$172 million budget cut and an increase of 12,000 students, every student is enrolled and attending school, and teachers are trying their best with limited resources to give our children the education they need to have success in their lives.

Larry K. Shumway, State Superintendent of Public Instruction, briefly mentioned the impacts of the FY 2010 budget cuts on public education - larger class sizes, lower pay for teachers, less support in the classroom, and fewer school days for students.

He explained that the Minimum School Program (MSP) is a budget that is allocated to 41 school districts and 72 charter schools. The by word has been "maximum flexibility" for each of those entities. The ways the cuts were implemented last year were different in each of those situations.

The current FY 2010 budget for the MSP is \$2,947,000,000, a reduction of \$172 million from FY 2009. Even though enrollment is estimated to be up by 11,000 students, USOE is requesting the same \$2,947,000,000 for FY 2011. Included in this budget is \$293 million in ARRA and other one-time state funding that will require additional revenue.

He stated that reductions that don't affect the classroom are just not out there. Schools are operating very efficiently and he recognized Utah educators and their outstanding effort to make things work. He pointed out that the Utah State Office of Education took a 21 percent reduction in FY 2010 that included a loss of 30 FTEs. Adjustments have been made to ensure USOE provides leadership, accountability, and service to the districts.

Pres. Waddoups inquired about the decrease in teacher pay. Supt. Shumway explained that teachers worked fewer days which ultimately means less pay.

Sen. Jones, commenting on the challenges a public school teacher faces under the budget constraints, asked if Supt. Shumway would recommend that young, promising people go into the teaching profession. Supt. Shumway stated that he loves the profession but acknowledged that the level of support a teacher gets in the classroom and the total compensation a teacher receives has been diminished. Even though every student is enrolled and every teacher continues to teach, there are long-term repercussions that will impact students, teachers, the workforce, and the community as a whole.

Co-Chair Bigelow recommended the teaching profession to our best and brightest students. The teaching profession has tremendous benefits, and teachers have weathered the storm better than most industries and businesses in Utah. He stated that school districts have been very creative in keeping teachers in the classroom, and the only option that would have improved the classroom setting would have been a huge tax increase. The impact of this increase would have been felt by the retiree and the young married family on small incomes.

Sen. Robles asked what school districts are doing to address reductions in programs for children with disabilities, in particular, autism. She also asked about what is being done to help teacher morale. Finally, Sen. Robles inquired about creative ways to bring in more funding.

Supt. Shumway commented on the revenue question, noting that a number of suggestions have been made such as tobacco tax and sales tax adjustments. While it is important to cut back on expenses, it is also imperative to find ways to generate revenue. He went on to say that it is difficult to find a balance between cutting budgets and recognizing teacher performance. School districts and principals are working hard to keep morale up as teachers work fewer days and take home smaller pay checks.

As far as programs for children with disabilities, special education and Title I programs have received a substantial infusion of ARRA funding. These programs should be whole for at least two years. He expressed concern for students who do not fit into these categories and are on the margin. As class sizes go up, these students will be affected.

Sen. Robles asked about staffing in special education and the Carson Smith Scholarship. Supt. Shumway explained that the Carson Smith Scholarship was funded at \$2.5 million and thus far has not been oversubscribed. USOE projects that next year, there will be more applicants than there is money. As a result, fewer dollars will be available for each student. He added that IDEA funding for staffing in special education continues to be supported by ARRA funding.

Speaker Clark thanked the education community for doing more with less. He expressed appreciation to Chair Debra Roberts and recognized her outreach efforts in southern Utah to keep him informed. Speaker Clark noted that while last year's budget was cut \$1.8 billion, public education has remained 95 percent whole. The Legislature is committed to public education. There are tough days and tough choices ahead, and he hoped that education will continue to work with the Legislature to find the highest and best uses of these resources.

Supt. Shumway acknowledged the Legislature's commitment to education. He hopes that the Legislature recognizes that cuts to education do have an impact. The State Board of Education is making a concerted effort to work collaboratively as partners with the Legislature.

Rep. Moss talked about the cumulative effect of the budget cuts. She expressed concern about the long-term effects on children and the loss of our teaching pool. Rep. Moss cited one example in her district where the loss of aids in the classroom is compromising teachers' ability to teach language skills to refugees.

Rep. Moss asked if the "Race to the Top" monies could make a difference on diminishing resources.

Supt. Shumway stated that "Race to the Top" monies are one-time funding that can build capacity for stronger leadership, teacher development, tracking, and data systems. This funding cannot fill salary holes created by the budget shortfalls.

Pres. Waddoups encouraged citizens to approach their local school boards with new ideas. We need to do more creative thinking and look at ways to change the paradigm of education.

Co-Chair Hillyard commented that solving the revenue shortfall is not a simple issue. He commented that public education may not have felt the full impact of this shortfall because some districts have been able to use savings and one-time ARRA money that will go away. Co-Chair Hillyard expressed an interest in hearing what changes have been implemented in adjusting to these budget challenges.

6. Factors Driving FY 2011 Budget Requests

Jonathan Ball, LFA, referred to the memorandum behind Tab 6, "Factors Driving Budget Requests," dated November 10, 2009. He stated that there are three major areas of concern to look at: additional revenue shortfalls (pending December's update on revenue estimates), FY 2010 "backfill" monies (listed on page 3 by area of expenditure), and mandated growth.

Mr. Ball highlighted the following growth items:

The Utah Department of Health projects that Medicaid caseloads will increase by 12% from FY 2010 to FY 2011. The Department has requested \$30 million from the General Fund (GF) for caseload growth, \$14 million for medical cost inflation, and \$39 million for prior-year caseload growth, totaling \$83 million in FY 2011. The agency further estimates it will require \$19 million for the General Fund in the current budget year (FY 2010) for similar expenses.

Public Education's Common Data Committee projects a 2% increase in student enrollment from FY 2010 to FY 2011 (11,044 children or 13,343 new Weighted Pupil Units). The Analyst estimates that such growth accompanied by related changes in local revenue will cost \$75 million from the Education Fund (EF) and Uniform School Fund (USF).

The Utah Retirement Systems is projecting a 15 percent increase in state retirement contributions. This will cost about \$20 million in the GF/EF (\$30 million from all funding sources) for state agency and higher education employees in FY 2011. The Public Employees Health Plan projects employee health insurance costs will increase by 12 percent from FY 2010 to FY 2011. This will cost about \$23 million GF/EF (\$37 million from all funding sources) for state and higher education employees.

Mr. Ball noted that the retirement and health costs estimates do not include public education. In past years, Legislators have approved WPU value increases in lieu of specific appropriations for benefit costs at school districts and charter schools. A 1 percent WPU value increase would cost between \$20 million and \$25 million EF/USF.

Mr. Ball concluded his remarks stating that these growth items, along with \$460 million in one-time "backfill" money, approach an estimated \$700 million in budget requests for FY 2011. This does not include any additional revenue shortfalls that we will know about next month.

7. Request for Proposals Approval

Co-Chair Hillyard recognized Co-Chair Bigelow for a motion.

MOTION: Co-Chair Bigelow moved to authorize staff to issue an RFP to hire a management consultant to study efficiencies for the forensics units at the State Hospital and State Development Center. The motion passed unanimously with Pres. Waddoups and Sen. Robles absent for the vote.

8. Other Business

Co-Chair Hillyard directed the committee's attention to the written reports behind Tab 8: (1) Elected Official and Judicial Compensation Commission Report; (2) Utah Commission on Aging Annual Report; and (3) Tax Commission Response to Previous Meeting Questions.

Co-Chair Hillyard recognized Co-Chair Bigelow for a motion.

MOTION: Co-Chair Bigelow moved to adjourn. The motion passed unanimously with Pres. Waddoups and Sen. Robles absent for the vote.

Co-Chair Hillyard adjourned the meeting at 3:05 p.m.